

World Bank Group

The International Finance Corporation (IFC)

FY2001 Appropriation	FY2002 Request
\$0	\$0

The IFC is a member of the World Bank Group. Chartered in 1956, the IFC was created to promote private sector development, foreign investment, privatization, and efficient financial markets in developing countries. To this end, the IFC makes loans and equity investments in private sector projects in developing countries for its own account, mobilizes private capital alongside its own resources, and provides advisory and technical assistance to advance the development of the private sector.

For FY2002, the Administration is not requesting any funding for the IFC.

Key Facts

- ?? The United States is the IFC's largest shareholder, owning 24% of IFC's capital.
- ?? IFC is financially strong and maintains a AAA credit rating. This rating allows the IFC to leverage its capital base by selling bonds, thereby increasing its ability to lend funds.
- ?? Because the IFC is involved with private sector projects, it lends without a sovereign guarantee. Thus, the IFC is fully exposed to the commercial risks of its investments. For WBFY00, IFC's net income totaled \$380 million.
- ?? In WBFY00, IFC's Board approved \$5.8 billion in new investments in 259 projects.
- ?? At the end of WBFY00, IFC's disbursed portfolio totaled \$10.9 billion, consisting of \$8.3 billion in loans and \$2.6 billion in equity investments.
- ?? In addition to its operations, IFC operates a B-loan program under which IFC co-finances projects with commercial banks and other financial institutions, thus enabling IFC to leverage its resources. As of end WBFY00, total commitments under the B-loan program totaled \$8.3 billion.

Supporting U.S. Objectives

IFC continues to make a special effort in Sub-Saharan Africa, and other areas such as Central Asia, the Pacific Islands, Bosnia, and the West Bank which have not yet been able to attract substantial inflows of private capital. IFC's June 2000 "Strategic Directions" paper calls for several measures to ensure that IFC operations are increasingly selective, and do not displace

private sector involvement.

- ?? IFC is seeking greater involvement in high risk “frontier” markets (i.e., Sub-Saharan Africa, Central Asia, the Pacific Islands, Bosnia, and the West Bank). IFC has placed more investment officers on the ground in these countries and has added an investment officer dedicated to Sub-Saharan Africa in each of its sectoral departments.
- ?? IFC continues to be involved in promoting small and medium-size enterprises (SMEs) and promoting private sector support for infrastructure, financial sector, environment, and social sector projects.
- ?? IFC has increased its support of small and medium-size enterprises in Russia and the NIS.
- ?? IFC is more closely coordinating with the World Bank to eliminate overlap and leverage resources. The pay-off for IFC is greater effectiveness in promoting private sector development in developing countries and, more broadly, better leverage of Bank Group resources.
- ?? IFC and the World Bank have formed joint “global product groups” in sectors such as telecommunications, mining, and oil, gas and chemicals, to combine the expertise of the two institutions.
- ?? The World Bank’s Asia private sector staff have been co-located with IFC’s Asia region staff. A preliminary private sector strategy involving both institutions was developed in 1999, and a new strategy is being prepared for spring 2001.

Encouraging Development of Market-Oriented Economies

- ?? Under the direction of Mr. Peter Woicke, Executive Vice President and Managing Director for Private Sector Development for the World Bank Group and the IFC, IFC has focused on promoting the development of sound regulatory, supervisory, and legal frameworks for the private sector in developing countries which have been affected by financial crises.
- ?? In WBFY00, IFC and the World Bank coordinated their private sector advisory services. Examples of this work include:
 - ?? Turkmenistan: \$250,000 in quasi-equity finance for a bank focused on SME lending
 - ?? Hungary: Advice on water sector privatization in Hungary
 - ?? Tanzania: Advice on financial sector privatization
 - ?? Zambia: Advice on copper sector privatization
- ?? In December 2000, the IFC approved its first “rolling guarantee” project for Turkey. The total IFC project investment was \$125 million (with \$25 million for the guarantee). The project will allow local banks to access long-term funding and increase term finance

available to local business.

- ?? IFC's engagement with "frontier" countries will also increase the Bank Group's effectiveness both in promoting private sector development and reducing poverty.

Efforts to Improve Internal Controls

- ?? While the creation of joint World Bank/IFC units creates many opportunities for more effective interventions to promote market-oriented economies, it also poses some risks as World Bank and IFC clients are not the same. Thus, the Bank Group's Board requested that procedures for managing conflicts of interest between Bank and IFC staff be developed. Bank Management has drafted such procedures as well as a new office to mediate such conflicts (i.e., Conflicts of Interest Office).
- ?? Coverage of the World Bank's Anti-Corruption and Fraud Investigation Unit and telephone hotline was expanded to cover the Bank Group, thus including the IFC.

Efforts to Improve Information Disclosure

- ?? In an effort to be more accountable to local people potentially affected by World Bank Group private sector projects, IFC and MIGA created a new vice presidential level position, Compliance Advisor/Ombudsman in July 1999. The CAO reports directly to the Bank Group president, addressing external complaints and advising IFC/MIGA management on sensitive environmental and social issues. The draft guidelines were also made available on the IFC website for public consideration (www.ifc.org).
- ?? In June 2000, for example, the CAO reviewed a case in Peru involving a mercury spill by a truck belonging to a contractor of Minera Yanacocha SRL (MYSRL), which is Latin America's largest gold mine and is owned by IFC, Newmont Mining Corporation of Denver, Colorado, and Minera Buenaventura of Peru. The investigation was supported by a team of experts in the fields of environmental management of mines, ecotoxicology with specific reference to mercury, and in the fields of human health and disaster management.
- ?? Building on the 1999 agreement to make IFC independently produced evaluation reports publicly available, four abstracts of sector studies and annual reviews were released in 2000. Guidelines and instructions used by staff for the evaluation of individual investment projects are now also publicly available at www.ifc.org/oeg.

Responding to Financial Emergency

- ?? Indonesia: IFC provided \$5 million to P.T. Bank to allow it to respond to the economic crisis by expanding its branch network and business lines. IFC's foreign investment advisory service supported long-term crisis recovery by designing a program to help Indonesia overcome barriers to foreign direct investment in the eastern provinces.
- ?? Korea: IFC resumed an active investment program for the first time in more than a decade. To date, IFC has invested \$2.5 billion in 17 projects in Korea and helped the Korean government develop the necessary legislation for asset securitization.
- ?? Russia: During WBFY00, IFC provided advisory and financing support to Russian banks and other financial institutions to promote long-term financial health and modernization. IFC's support reflects its ability to respond to financial emergency through support of critical sectors such as banking.

Coordination with other IFIs

- ?? As part of its plan to increase SME support in Russia and the NIS, the IFC has increased coordination with the EBRD to eliminate funding overlap, identify areas of joint expertise, and apportion resources efficiently in joint funding situations.
- ?? As a result of work started in 1999, IFC has created an Investment Impediment Database. This database serves as a resource for other institutions, providing information about impediments and barriers encountered by individual institutions at the project level. Working groups on environmental standards and small and medium-sized enterprises were also formed.

Project Effectiveness

- ?? In 1995, the Operations and Evaluations Group (OEG) was created at the IFC as an independent evaluation unit. OEG, which maintains an independent relationship with IFC operations and Management, reports through the World Bank's Director-General for Operations Evaluation, to IFC's Board. OEG shares its findings with the IFC Board and Staff.
- ?? In its FY99 Annual Review, presented to the Board in May 2000, OEG found in a sample of 114 evaluated operations that:
 - ?? Overall outcome ratings were mostly successful or better for 67% of all investments (by number);
 - ?? There was a continued strong correlation between high developmental impact and profitability;

- ?? Over the long run, more active IFC engagement in high-risk countries and targeted sectors is likely to yield still greater development impact.

Core Labor Standards

- ?? In 1998, IFC adopted World Bank Group policies that prohibit the use of harmful child labor and forced labor in their projects. The policies also require adherence to all domestic laws concerning core labor standards. The IFC is in the process of developing additional labor protection measures, including:
 - ?? Preparation of a guide on harmful child labor, to assist borrowers to eliminate harmful child labor in their own and their suppliers' operations.
 - ?? Preparation of a retrenchment guide, intended to provide guidance to borrowers on how to deal with the retrenchment of employees associated with privatization loans supported by the IFC, through ensuring the planning and implementation of appropriate compensation and mitigation measures.
 - ?? Health and safety guidelines in IFC-funded projects, particularly large-scale civil engineering projects. The IFC currently has such guidelines, but these are being updated. Regulation of workplace safety and health by government authorities is often inadequate, especially in less-developed countries.

Corporate Governance

- ?? The IFC Executive Vice President announced plans to protect minority shareholder rights by making access to IFC finance conditional on good corporate governance (minority shareholder rights and financial statement transparency). Initial focus will be on Latin America, where international investors (mainly U.S. and European companies) have often lost out to majority shareholders in corporate takeovers.

Efforts to Support Environmental Goals

- ?? The IFC has had procedures for environmental assessment and management since the early 1990's. In 1998, IFC's policy and procedures were updated and harmonized with those of the World Bank Group, following public consultations. Its Environmental and Social Review Unit examines potential projects for their effects on the environment and the people in the project area. For projects with significant environmental effects, environmental impact assessments (EIAs) and environmental management plans are required. Some projects entail the preparation of resettlement or indigenous peoples' plans.

?? The IFC engages in capacity building to help clients improve their ability to evaluate and manage environmental and social issues. IFC staff assists small and medium-size enterprises in analysis and planning, and, if needed, mobilizes outside technical assistance to support those typically inexperienced clients. The Financial Markets Environmental Services Unit holds workshops to build environmental capacity in financial institutions. Financial intermediary clients must demonstrate their capacity to assess environmental risks of subprojects or make plans to develop that capacity. Where the IFC is unsure about its clients' capacity, it may require that it give prior approval on sub-projects.

?? The new Environmental Project Unit seeks out projects with positive environmental goals. It collaborates with the Global Environment Facility and other institutions to finance innovative projects with renewable energy and other sectors.

Opportunities for U.S. Business

?? In 1999, the IFC committed \$692 million for projects in which U.S. firms were involved.